

Appendix F

Economic Analysis for Lucerne Promenade Master Plan

(Memorandum follows.)

Memorandum

Date: April 10, 2005
From: Janet Smith-Heimer BAE
Subject: Economic Analysis for Lucerne Promenade Master Plan

Introduction

This memo provides background economic analysis to assist in the planning of the Lucerne Promenade, located along Highway 20 between 1st and 13th Streets in Lucerne, California. This memorandum analyzes market conditions for Lucerne and the Promenade, evaluates the Promenade's development program, and reviews the potential to attract California I-Bank funding to initiate the project.

It should be noted that Lake County Redevelopment commissioned BAE to conduct several related studies under separate contract, including an Incubator Feasibility Study for Harbor Village (located along the Lucerne Promenade), as well as a Business Attraction Strategy for Clearlake Oaks, and a Developer Panel to explore private investment interest in Northshore communities.

Demographic Trends

In 2000, Lucerne had a population of 2,870 residents, an increase of almost 43 percent since the 1990 population of 2,011. Although area household incomes are relatively low, homeownership rates in Lucerne in 2000 were high, with 70 percent of households owning their home compared to 57 percent statewide. However, Lucerne has a high proportion of mobile homes within its housing stock (37 percent compared to four percent statewide), and a relatively high proportion of senior residents, with more than 25 percent of Lucerne's residents age 65 or over, compared with statewide proportions of 11 percent in this age category. The presence of multiple senior households living in substandard mobile homes in Lucerne poses unique issues of site redevelopment¹.

According to the 2000 Census, Lucerne had relatively low median family incomes (\$27,700 compared to \$53,000 statewide), and relatively high rates of poverty (just under 17 percent compared to 11 percent for the state for families). In 2003, Lucerne also had a relatively high rate of unemployment (just under 13 percent, compared to a state rate of 6.7 percent).

¹ Senior service providers in Lake County note that many elderly reside in mobile homes without proper heating or plumbing, and replacement affordable housing is a key unmet need. However, since many residents are Medi-Cal recipients, most can not receive cash from sale of their units without jeopardizing Medi-Cal eligibility, leaving the elderly trapped in their units. Special collaboration with the State may be necessary to replace the more than 650 mobile homes in Lucerne, particularly those units occupying the potential West Gateway Hotel site in the Lucerne Promenade plan.

Tourism Trends

According to data reported by Dean Runyan for the California Department of Tourism, Lake County visitor spending in 2002 exceeded \$2,200 when measured by the number of residents (per capita), compared with a lower \$1,828 per capita measure statewide. Visitors spent a total \$136 million in Lake County in 2002.

However, the proportions of spending varied quite substantially from statewide patterns (which serve as an indicator of potential market spending by tourists):

- Only 29 percent of Lake County visitor spending was on hotels/motels, compared to 51 percent of statewide.
- In contrast, 23 percent of Lake County visitor spending was for vacation homes, compared with only five percent of visitor spending Statewide.
- Visitors to private homes in Lake County accounted for 15 percent of spending, versus 13 percent statewide.
- Public and private campgrounds accounted for 15 percent of Lake County visitor spending, versus only five percent statewide.
- Day travelers accounted for only 15 percent of Lake County spending, versus 27 percent statewide.

It should be noted that the benefits of this spending in terms of local tax revenues is lower in Lake County than statewide, due to the exemptions for timeshares, private vacation homes, and tribal lands. While statewide, visitation spending generated \$48 of taxes per resident, Lake County's visitation generated just \$36 per capita.

Key Visitation Generators

Lucerne's location along Highway 20 creates a gateway to the Northshore of Clear Lake, an historic recreation destination with potential for substantial visitor expansion. Key visitor-related findings include:

- Lucerne has an average daily traffic count of 5,400 westbound travelers and 5,200 eastbound travelers. Summer peak traffic counts increase to 6,200 westbound and 6,000 eastbound.
- The junctions at Highway 29 and 53 reduce traffic through Lucerne, indicating that approximately 5,000 daily trips to western Lake County could be captured if amenities and services were available in the community.
- The Visitor Center indicates visitation by an average of only 15 visitors per day, with visitation peaking on July 4th (with 54 visitors).
- When the Clear Lake Queen, an historic paddleboat with capacity for 100 seated or 150 standing, was in use, customers peaked in summer weekends at 35 to 40 , and 25 during the week. Use declined to 20 on weekends in the off season (minimum of 20 passengers were required to cover operating costs). The Queen was not allowed access to Konocti Harbor. It has recently settled in its Lucerne home.

Wineries

- Ceago de Lago (a Fetzer family winery and biodynamic farm) opened recently. This winery is limited to just 10 special events per year under its conditional use permit, but anticipates booking weddings and events to the extent allowable, as well as inviting the public and school groups to tour the facility, including “biodynamic” farming methods.
- Tulip Hill Winery, located between Nice and Lucerne, also opened recently. This winery offers a 300 square foot tasting room and anticipates 75 person special events regularly.
- The combination of these facilities across the highway from each other provides a unique opportunity for new lodging development along the Lucerne Promenade, as neither winery will have associated lodging. Ceago de Lago may pursue development of 10 cottages on the property however no specific development has been initiated. Tulip Hill has no land for lodging development and is currently negotiating with area hotels for rates on group bookings of 30 to 40 rooms, with visitors potentially lodged at Konocti Harbor or the Featherbed Bed and Breakfast. Both wineries have identified lack of readily accessible water as hampering their development.

Beyond the boundaries of Lucerne, the Northshore area of Clear Lake offers a range of recreational opportunities including:

Boating

- The California Department of Boating’s 2002 Needs Assessment found that Clear Lake is the 5th most popular waterway among California boaters with boats under 26 feet (outranking 250 other waterways).
- Boaters most commonly picked a waterway due to proximity to home and indicated Clear Lake was the number one waterway chosen for this reason.
- The California Department of Boating includes Lake County in the Sacramento Basin region. The Needs Assessment indicated daily spending by boaters in the region averaged \$105 per day, with 160,490 registered boats among the 2.6 million region’s residents. Based on use patterns, the region has the potential for \$758 million in industry spending just among the areas boaters. Within the region, 4.5 percent note Clear Lake as their top utilized waterway, representing \$34 million in annual potential spending.
- Approximately 24,000 new boats are expected to be in use in the Sacramento region by 2020, resulting an additional \$4.3 million per year of spending capturable in the area.
- Lucerne offers visitors a municipal launch at the Lucerne Harbor County Park and a limited marina facility exists at the Beachcomber Inn.
- Notably, the Worldmark timeshare facility north of Lucerne lacks a marina; however management estimates that its visitors bring 40 to 60 boats on any given weekend, which they would prefer to be able to keep in the water during their stay.
- The County’s largest marina operated by Braito in Kelseyville offers 180 slips and capacity for 70 boats in dry storage. They have a waiting list and the management is encouraging of additional marina development on the lake. Konocti Harbor offers another 85 slips on the west side of the Lake, with the peak season experiencing full occupancy, off season experiencing high occupancy even as hotel occupancy drops. Konocti Vista Casino is adding a marina with 60 to 90 slips to serve guests at no fee at their new 80-room hotel.

- Equipment rentals are available throughout the western and southern shores of Clear Lake, but offerings are limited on the Northshore (Disney Sports in Lakeport provides rentals to Worldmark guests, and rentals are available at the Blue Lake Cove in Clearlake Oaks).

Fishing

- The California Department of Boating's Needs Assessment indicated Clear Lake was the State's 14th most popular location among boaters for fishing.
- Professional bass fishing organizations have designated Clear Lake as the number one bass lake in the nation based on numbers of fish caught. Other excellent fishing opportunities include catfish, blackfish, Sacramento perch, hitch, crappie and bluegill.
- Local stakeholders stressed that bass fishing tournaments held elsewhere on the Lake leave Lucerne poorly positioned to attract these visitors, although family-oriented fishing of other species was noted as a key potential attraction, along with smaller tournaments like Clearlake Oaks' catfish derby.

Special Events

- Konocti Harbor draws up to 5,000 attendees to each of 85 concerts per year. Headliners include nationally recognized performers.
- Annual music and dance festivals attract 400 to 900 people to Lakeport in the spring. The County Fair in Lakeport attracts 38,000 people over four days.
- Kelseyville's Pear festival attracts 7,500 people.
- There are several thousand estimated participants in Clearlake's International Worm Races.
- The largest draw on the Northshore is the Clearlake Oaks Catfish derby, drawing as many as 500 participants, with a few hundred also participating in Clearlake Oaks' Strawberry Festival and Nice's Redbud festival. Other than the Catfish derby these events are in the Spring shoulder season. However, the area's new wineries and their participation in community events provides an opportunity to raise the participation and profile of existing and new events.
- Notably fishing, arts, sports and automotive/motorcycling, food and cultural events occur from April to October in Lakeport and Konocti Bay extending the visitor season through both Spring and Fall.
- Annually, the County Fairgrounds has over 200,000 visitors to all of its events.
- Lucerne's only festival, the Alpine Festival, previously drew up to 3,000 people but has dwindled to just 200 to 300 with the addition of a concurrent Health Fair.

Casinos

- The Robinson Rancheria provides 600 slot machines, a restaurant and bingo just north of Nice, with a 60 space RV park. They have recently opened a 40-room hotel.
- Across the lake, Konocti Vista Casino has 650 slots and seven tables and a newly developed 80 room hotel, and a marina in development for use by guests at no charge.

Existing Lodging Inventory

Lucerne's existing lodging consists largely of outdated lakeside motels of less than 25 rooms

each, including weekly rentals (particularly in the off-season). This lodging is clustered in a few locations on Highway 20 at 1st, 11th and between 16th and 17th along the proposed Promenade.

- Total hotel room capacity appears to be less than 50 rentable rooms, with rates ranging from a low of \$39 per night to a high of \$90 per night during the peak season. While a boutique B&B location off the lake has higher price points; it has minimal rooms and reports high vacancy.
- Lakefront vacation homes prevalent elsewhere around the lake are limited in Lucerne to Nomad's Landing and one additional recently constructed guest house.
- The Lucerne Conference Center, an religiously affiliated historic structure overlooking Highway 20 and the lake above town, limits use of its 70 rooms (124 dormitory beds) to participants in its own programming as well as group rentals of 80 to 100 people from affiliated churches.
- The neighboring 88 unit Worldmark timeshare limits access to its 200,000 nationwide owners, with a reported 93 to 96 percent occupancy in the summer 50 to 60 percent occupancy in the off-season.
- Approximately 1,000 hotel rooms are available throughout Lake County, with quality varying from moderate to good. Hotel accommodations around the lake include the Konocti Harbor Resort, with 250 rooms, suites, apartments and cottages ranging from \$80 to \$500 per night. Five miles north of Lucerne, the community of Nice offers two charming but small lodgings with a total of less than 20 rooms: Gingerbread Cottages and Featherbed Railroad (with nightly rates of \$115 to \$185).

Market Support for Promenade Development Program

The Lucerne Master Plan envisions development of a mix of retail, restaurant, and hotel rooms per the following development program:

Western Gateway

- Approximately 170 hotel rooms (or timeshares)
- 100 slip marina
- 6,500 square feet of retail

Park

- Harbor Village retail + Snack Shack
- Pavilion for weddings
- Play area
- Potential Clear Lake Queen docking (two alternate locations)

Grand Plaza at the Strand (13th Street intersection)

- 10,000 square feet retail/restaurants

- Future hotel site – 40 rooms

East Gateway

- 40 room hotel with marina (underway by private developer)

Outlook for Hotel/ Timeshare and Marina Components

Existing lodging provides only 1,000 rooms countywide, with limited and generally outdated offerings in Lucerne and nearby Northshore communities.

The approximately 250 hotel rooms envisioned in the Promenade Master Plan will likely experience phased absorption, but should ultimately experience strong demand. This conclusion is based on the current shortage of rooms for Konocti Harbor/Casino visitors, the increasing winery tourism without associated hotel rooms, the substantial potential to capture overnight visitation from highway travelers, and the recreation experience to be offered by the Lucerne Promenade. Occupancy patterns and general marketing attraction should be tracked for the first hotel site, at the eastern gateway, currently under private development. The second hotel site recommended for development is the 40-room site at the Grand Plaza/The Strand, as improvements and retail/restaurants are added in this location.

The Western Gateway, with the potential for a larger 170 room or timeshare development, poses challenges in terms of relocating existing mobile home residents. This site is recommended for a latter development phase, once visitation and amenities have been developed along the other segments of the Promenade.

With respect to the 100 slip marina envisioned at the Western Gateway, this component will also likely experience strong absorption in the latter development phases. The marina is a strong complement to the potential hotel/timeshare component at this site, and will be supported by the growth projected in the demand for slips forecasted by the CalBoating Needs Assessment. It should be noted, however, that key informant interviews conducted for this study indicated that improvements to create calmer waters may be necessary to ensure a feasible marina project at this location.

Retail

The total development program envisioned by the Master Plan incorporates 16,500 square feet of retail/restaurant space (excluding the Harbor Village retail and Third Avenue Plaza snack shack). This program includes approximately 10,000 square feet at the Grand Plaza/The Strand intersection, and 6,500 square feet at the Western Gateway.

The successful occupancy of the retail program envisioned in the Master Plan will depend on several factors, including the early success of the Eastern Gateway 40-room hotel, the next-phase Grand Plaza/Strand hotel, and the eventual development of the Western Gateway. In addition, work by BAE on related projects suggests that current interest by local entrepreneurs in starting and growing retail and restaurant services will face some challenges.

As the Promenade and The Strand commence improvements, the “place-making” associated with the Master Plan will encourage retail market demand. With the summer peak season traffic counts along Highway 20, as well as the establishment of Lucerne as the visitor-serving gateway to the Northshore, new retail development will eventually be supported.

It is recommended that the initial focus of retail attraction be on restaurants at the intersection of the Promenade and the Strand. Family-oriented, quality food service will likely increase visitor expenditures and attraction. The Lake County Redevelopment Agency should partner with local property owners to market available sites, using a solicitation process combined with broker efforts and county small business services as needed.

Appendix A: Demographic Data

Table 1: Population and Household Trends

Lucerne	1990	2000	Change '90-'00
Population	2,011	2,870	42.7%
Households	950	1,325	39.5%
Average Household Size	2.12	2.16	
Owner Households	70%	70%	
Renter Households	30%	30%	
Lake County			
Population	50,631	58,309	15.2%
Households	20,805	23,974	15.2%
Average Household Size	2.38	2.39	
Owner Households	71%	71%	
Renter Households	29%	29%	
California			
Population	29,760,021	33,871,648	13.8%
Households	10,381,206	11,502,870	10.8%
Average Household Size	2.79	2.87	2.9%
Owner Households	56%	57%	
Renter Households	44%	43%	

Sources: 1990 & 2000 Census; BAE 2004.

Table 2: Age Distribution

2000 Age	Lucerne		Lake County		California	
	Number	% of Total	Number	% of Total	Number	% of Total
Under 18	597	20.8%	14,062	24.1%	9,249,829	27.3%
18-24	140	4.9%	3,503	6.0%	3,366,030	9.9%
25-34	221	7.7%	5,342	9.2%	5,229,062	15.4%
35-44	368	12.8%	8,405	14.4%	5,485,341	16.2%
45-54	424	14.8%	8,904	15.3%	4,331,635	12.8%
55-64	387	13.5%	6,734	11.5%	2,614,093	7.7%
65+	733	25.5%	11,359	19.5%	3,595,658	10.6%
Total	2,870	100.0%	58,309	100.0%	33,871,648	100.0%
Median Age	47.3		42.7		33.3	

Sources: 2000 Census; BAE 2004.

Table 3: Housing Units

Units in Structure	Lucerne		Lake County		California	
1 unit, detached	985	54.6%	20,067	61.7%	6,883,493	56.4%
1 unit, attached	31	1.7%	533	1.6%	931,873	7.6%
2 Units	13	0.7%	438	1.3%	327,024	2.7%
3 or 4 Units	34	1.9%	460	1.4%	697,779	5.7%
5 to 9 Units	11	0.6%	248	0.8%	722,827	5.9%
10 to 19 Units	17	0.9%	203	0.6%	619,092	5.1%
20 to 49 Units	26	1.4%	298	0.9%	617,051	5.1%
50 Units or more	-	0.0%	55	0.2%	845,742	6.9%
Mobile home	659	36.6%	9,752	30.0%	538,423	4.4%
Boat, RV, van, etc.	27	1.5%	474	1.5%	31,245	0.3%
Total:	1,803	100.0%	32,528	100.0%	12,214,549	100.0%

Sources: 1990 & 2000 Census; BAE 2004.

Table 4: Labor Force, Household Income, and Poverty

	<u>Lucerne</u>	<u>California</u>
Labor Force		
2003 Labor Force (a)	720	
2003 Annual Average Unemployment (b)	12.8%	6.7%
Median Family Income (c)	\$27,656	\$53,025
Poverty Rate (d)		
Families	13.7%	10.6%
Individuals	15.9%	14.2%

Notes:

(a) Labor Force from California Employment Development Department.

(b) 2003 Annual Average Unemployment Rate information from California Employment Development Department

(c) 1999 Median Family Income from 2000 US Census.

(d) 1999 Poverty Rate from 2000 US Census.

Sources: 2000 US Census; California Employment Development Department, 2004; BAE, 2004.

Table 5: Visitor Spending In Lake County and California, 2002

	California 2002			Lake County 2002		
	Total	Per Capita	% of Total	Total	Per Capita	% of Total
Visitor Spending by Type of Accommodation						
Hotel, Motel, B&B	\$32,700	\$925	51%	\$39	\$639	29%
Private Campground	\$2,500	\$71	4%	\$18	\$289	13%
Public Campground	\$500	\$14	1%	\$3	\$49	2%
Private Home	\$8,600	\$243	13%	\$24	\$388	18%
Vacation Home	\$3,100	\$88	5%	\$32	\$514	23%
Day Travel	\$17,200	\$487	27%	\$20	\$331	15%
Spending at Destination	\$64,600	\$1,828	100%	\$136	\$2,210	100%
Visitor Spending by Commodity Purchased						
Accommodations	\$11,600	\$328	18%	\$29	\$468	21%
Food & Beverage Services	\$16,500	\$467	26%	\$39	\$639	29%
Food Stores	\$2,300	\$65	4%	\$9	\$153	7%
Ground Tran. & Motor Fuel	\$8,000	\$226	12%	\$5	\$83	4%
Recreation, Entertainment	\$12,300	\$348	19%	\$26	\$416	19%
Shopping	\$13,800	\$391	21%	\$28	\$450	20%
Spending at Destination	\$64,600	\$1,828	100%	\$136	\$2,210	100%
Travel-Generated Earnings by Industry						
Accommodation & Food Services	\$11,300	\$320	46%	\$29	\$475	64%
Arts, Entertainment & Recreation	\$6,000	\$170	24%	\$9	\$150	20%
Retail (incl. Motor Fuel)	\$2,300	\$65	9%	\$5	\$85	11%
Air Transportation	\$3,000	\$85	12%	\$0	\$0	0%
Travel Arrangement Services	\$1,700	\$48	7%	\$2	\$36	5%
Auto Rental & other ground tran.	\$400	\$11	2%	\$0	\$0	0%
Total Direct Earnings	\$24,600	\$696	100%	\$46	\$746	100%
2002 Population (b)	35,336,000			61,300		

Notes:

(a) Numbers are estimated from a combination of TOT, room, retail, auto rental, and some specific food store sales.

Population estimate from the California Dept. of Finance Demographic research.

Source:

California Travel Impacts by County, 1992-2002. Feb 2004, Prepared by Dean Runyon Associates for California Tourism.

Table 6: Highway 20 Traffic Counts

Location	Westbound			Eastbound		
	Peak Hour	Peak Month	Daily Traffic (a)	Peak Hour	Peak Month	Daily Traffic (a)
Lake County	n/a	n/a	n/a	940	9,900	8,100
Scott Valley Road	940	9,900	8,100	940	9,900	8,100
Junction Route 29 South	900	9,900	8,200	760	7,400	6,400
Upper Lake	n/a	n/a	n/a	n/a	n/a	n/a
Lucerne Cutoff	680	7,100	6,200	840	9,200	8,000
Lucerne, East; Bell Ray Avenue	570	6,200	5,400	550	6,000	5,200
Clearlake Oaks, East	550	6,000	5,200	550	6,000	5,200
Junction Route 53 South	860	9,100	7,600	870	8,000	6,200

Notes:

(a) Annual Average Daily Traffic (total annual volume divided by 365 days)

Sources: State of California, Department of Transportation, Traffic Operations Division, 2004; BAE, 2004

Appendix B: Infrastructure Financing

California I-Bank

The I-Bank lends capital improvement dollars to California communities for purposes of improving a wide range of infrastructure. Loans are available in two tiers, with Tier 1 loans of \$250,000 to \$10 million, and Tier 2 with loans of \$250,000 to \$2.5 million. Tier 2 loans are particularly well-suited to Lucerne, as these loans are earmarked for economically distressed communities meeting certain criteria.

Loans can be repaid using redevelopment tax increment funds, which can work well for Lake County.

Criteria for the Tier 2 program include job creation/retention, support of “economic base employment” that attracts outside-of-area spending (e.g., tourism), and additional scoring is obtainable through community development linkages such as a possible retail incubator. Applications are evaluated based on demonstrated community economic needs compared to State benchmarks, including:

- Unemployment Rate
- Median Family Income
- Change in Labor Force
- Poverty Rate

Additional land use criteria include:

- Renewal and Maintenance of Urban Structure in a Rural Context
- Environmental Protection (this may include lake mitigations and or dredging)

The Housing Element must be adopted for the County to be eligible for the program. Further the applications are evaluated on leverage of other funds, and the readiness of the project to commence development.

US Department of Economic Development Administration

US Department of Economic Development Administration (EDA) funds major infrastructure improvements throughout the nation in economically distressed communities. Annual funding for FY05 is estimated at \$200 million. Average grants in 2003 were \$1.3 million with 159 investments. Recipients must meet economic distress criteria as well as have a currently approved Comprehensive Economic Development Strategy applicable to the area for which the proposed project is located. A 20 percent local match must be committed and available.

Investments in facilities such as water and sewer system improvements, industrial access roads, industrial and business parks, port facilities, railroad sidings, distance learning facilities, skill-training facilities, business incubator facilities, redevelopment of brownfields, eco-industrial facilities, and telecommunications infrastructure improvements needed for business retention and expansion are fundable (emphasis added). While grants are typically targeted to industrial development, infrastructure supporting economic development is fundable, and EDA is a noted funder of business incubators.

US Department of Agriculture

US Department of Agriculture (USDA) funds rural development through grants and loans in California. Programs sponsored by USDA supporting community development are only in designated empowerment zones. In addition, industry-specific grants exist such as Value Added Producer Grants from USDA that might be pursued for improvements to structures supporting a produce, public market or value added incubator in the Promenade however a non-profit with specific agricultural membership such as the Farmers Finest, Resource Conservation District, or Grange would need to apply rather than the Agency. Grants of up to \$500,000 are available for development projects supporting value added products coming to market.

California Boating and Waterways Commission (CalBoating)

In 2001 \$5.6 million was awarded for building or improving marinas and boat launches. Grants varied from \$100,000 to \$3.2M. Funded improvement included parking, jetty extensions, ramps, shades, walkways and associated utilities, drainage, lighting, landscaping, and signals.

California Boating and Waterways Commission (CalBoating)

The Department of Boating and Waterways offers loans for small craft harbor and recreational marinas, including breakwater construction, dredging, berthing, restrooms, pump-out stations, utilities, erosion control, parking, launches, and dry storage. Loan payments are deferred until construction is completed, with interest rate terms generally at prime plus one percent.

California Statewide Communities Development Authority

The Statewide Communities Development Authority (CDA) offers three potentially useful products to bridge gaps in revenue and the need to fund infrastructure early in the projects' development. These include:

- *Tax and Revenue Anticipation Notes* –(TRANs) provides an inexpensive method of financing short-term cash shortfalls and usually produce additional income through arbitrage earnings offering up to \$5M in short term as long as there is sufficient general fund revenue to bond against.
- *Water/Wastewater/Sewer Bonds* – offers \$250K to \$50M (up to one percent cost of issuance) Short to medium term prospects for accessing. Pooled bond utilizable for public capital improvements to water, wastewater, and sewer facilities. California municipalities with categorically eligible projects may participate
- *Statewide Community Infrastructure Program ("SCIP")* –This impact fee pre-funding Program would be based on fee : Large blocks of development impact fees can be financed up front. Marketed to fast growing cities where development has outpaced the capacity of water, sewer, and road systems. The developer submits an application to SCIP. Cities adopt a one-time resolution to join SCIP, make SCIP applications available to property owners at the building permit counter, cosign and submit the applications, and sign a closing certificate. The city may withdraw funds from its SCIP account